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Sub

Gamble-Skogmo, Inc. Annual Report 1967

Directors

B. C. Gamble
C. C. Raugust
B. F. Davidson
W. H. Davies, Jr.
L. E. Dolan
R. W. Jackson
A. G. Johnson
A. G. Kirkness
B. L. Robbins
A. C. Shedden
H. C. Stephens
A. D. Walker
H. W. Zinsmaster

Officers *(As of April 1, 1968)*

B. C. Gamble, Chairman of the Board
C. C. Raugust, President
W. H. Davies, Jr., Executive Vice President for Finance and Treasurer
L. E. Dolan, Executive Vice President for Legal and Secretary
A. G. Johnson, Executive Vice President for Buying and Merchandising
A. C. Shedden, Executive Vice President for Retail and Mail Order Operations
B. F. Davidson, Vice President
H. J. Frommelt, Vice President for Public Relations
J. P. Goan, Vice President
J. E. Gottlieb, Vice President for Real Estate
R. W. Hill, Vice President for Buying
R. W. Johnson, Vice President for Buying
W. H. Lollar, Vice President
L. W. Rixe, Vice President and Controller
P. R. Runeberg, Vice President for Management Information
H. C. Stephens, Vice President
E. O. Wack, Vice President for Franchise Operations
P. N. Johnson, Asst. Controller
R. G. Leohner, Asst. Secretary
P. T. Mucke, Asst. Secretary
N. M. Steck, Asst. Treasurer

Transfer Agent

First National City Bank
55 Wall Street
New York, New York 10015

Registrar

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015

Gamble-Skogmo, Inc. 1967 Annual Report

Know Your Company!
Its Size—Its People—
Its Activities
Why not put this card in
your wallet now

GAMBLE-SKOGMO, INC. FACTS

As of January 27, 1968

Sales and Profits:

Sales.....	\$883,530,476
Earnings before Income Taxes and Minority Interests.....	\$ 23,864,345
Income Taxes.....	\$ 12,191,024
Minority Interests.....	\$ 382,369
Total Net Earnings.....	\$ 11,290,952
Net Earnings Per Common Share	\$ 2.62

Other Significant Information:

Operating Companies:

Inventories.....	\$178,318,532
Net Working Capital.....	\$157,009,995
Current Ratio.....	2.57 to 1
Stockholders' Equity.....	\$155,787,861
Book Value Per Common Share.....	\$ 26.87
Book Value Per Common Share Assuming Conversion of Preferred Stock.....	\$ 30.80

Shareholders:

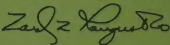
Number of Shareholders.....	17,059
Shares Outstanding.....	3,089,391
Cash Dividends.....	\$ 7,228,426
Dividends Per Common Share..	\$ 1.30

Gamble-Skogmo, Inc. Annual Report 1967

40th Consecutive Year of Dividends

Dear Shareholders and Employees:
By popular request we have again this year included this wallet-size fact card with your 1967 Annual Report.

The attached card has been prepared as a convenient source of information of Gambles Highlights for 1967 and will be helpful when answering questions about your company.

 President

OUTLETS

Company-owned Stores.....	897
Company-owned Catalog Offices.....	104
Authorized Dealers.....	3,349
Total Outlets.....	4,350
Warehouses.....	31

Gamble-Skogmo, Inc. has increased its total retail outlets from 2,269 in 1961 to a total of 4,350 in 1967. Net sales in 1961 were \$139,780,000 and in 1967 exceeded \$883,000,000. We operate in 38 states and in all provinces in Canada as follows:

IN THE U.S.A.

Gamble Stores and Franchised Dealers
Gamble Department Stores
Skogmo Franchised Dealers
Tempo Department Stores
Cussins & Fearn Stores
Buckeye Marts
Rasco Variety Stores and Franchised Dealers
Mode O'Day Shops and Franchised Dealers
Red Owl Food Stores
Red Owl Franchised Stores
Snyders Drug Stores
Alden Catalog Sales
Alden Telephone Offices
Department Stores (Aldens)
Eisen Stores and Franchised Dealers

IN CANADA

Macleods Stores and Franchised Dealers
Stedmans Stores and Franchised Dealers
Clark's Gamble Limited Stores
Marshall Wells Stores and Franchised Dtrs.
Gamble Drugs Limited

Full Time Employees..... 26,375

(The company changed its fiscal year end from January 31 to the last Saturday in January. This resulted in a 52-week period in 1967.)

Financial Highlights

	1967 ⁽¹⁾	1966 ⁽¹⁾
Sales (Including Leased Departments).....	\$883,530,476	\$682,365,336
Earnings before Income Taxes and Minority Interests.....	23,864,345	26,661,271
Provision for Income Taxes.....	12,191,024	13,815,111
Minority Interests.....	382,369	180,893
Net Earnings	11,290,952	12,665,267
Per Share of Common Stock (2).....	2.62	3.07
Cash Dividends.....	7,228,426	7,058,288
Per Share of Common Stock.....	1.30	1.25
Stockholders' Equity.....	155,787,861	151,725,335

(1) See Note (1) of notes to consolidated financial statements.

(2) Based on average number of common shares outstanding during each year.

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Officers and Directors (inside front cover)

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Principal Offices (inside back cover)

Annual Meeting, fourth Friday in June

The fiscal year 1967, which ended January 27, 1968, was one of accomplishment and continued progress. A significant goal was achieved in that our sales at this time are at an annual rate of more than \$1 billion. In keeping with our earlier program we continued to realign our management and organizational structure to permit full realization of the potential presented by our extremely rapid growth of recent years.

To this end, several important actions were initiated and will be carried forward in the year ahead. Marginal operations are being closely scrutinized in the light of performance to date and prospects for the future; centers of profit responsibility have been precisely identified; a central management group has been organized; a centralized corporate buying structure has been established; new emphasis has been directed to expansion of our unlimited potential in franchising; the capital structure of the company has been substantially strengthened; and we have accomplished the corporate separation of our financing and merchandising operations.

For the fiscal year sales of approximately \$900 million again reached a new high—5.4 percent above those for 1966 on a comparable basis. Earnings were below those of a year ago and were \$2.62 per share based on average shares of common stock outstanding, after provision for preferred dividends, against \$3.07 per share a year earlier. The decline was due to increased costs and expenses which rose faster than selling price adjustments could be made, the effects of lower farm income, a shorter fiscal year, and deliberate actions taken by the company to forego current earnings for the prospect of greater future profits.

The acquisition of 80.4 percent interest in Red Owl Stores, Inc., a leading retail and wholesale food chain with 463 grocery outlets as well as 32 complete drug stores in the Upper Midwest, was a particularly significant development. The addition of this vigorous enterprise affords our company the opportunity to expand combined food and general merchandise operations in the market areas in which Gamble-Skogmo and Red Owl already have well-established consumer acceptance. Moreover, the acquisition was financed with subordinated income notes which strengthened our capital base. Thus the transaction was advantageous to our

merchandising operations, added to our earnings and improved our capital structure.

Red Owl's earnings during its past fiscal year (a period of eleven months due to a change in the fiscal year) were up more than 60 percent over the entire twelve months of the prior year. Red Owl's earnings since acquired by this company have been at a rate of about \$2.00 per share on an annualized basis against 84 cents in the prior comparable period. The maximum benefit of Red Owl's dramatic improvement in earnings was not fully realized by this company inasmuch as the acquisition did not occur until July of 1967.

Plans to obtain the remaining minority interest of 19.6 percent of Red Owl shares outstanding were deferred since a favorable tax ruling on the basis of an exchange of stock was not obtainable from the Internal Revenue Service. However, our objectives in originally acquiring Red Owl stock can nonetheless be realized by the present holdings in that company.

In the belief that each center of profit accountability must demonstrate the potential to develop a fair return on capital employed, Shoppers World, a chain of 14 discount stores in Illinois, Indiana and Missouri, together with the five Gamble Discount Stores in Kansas City, were sold during the year. The capital investment released by the sale will be used for operations that appear to have greater possibilities.

As pointed out in earlier reports, the company embarked on a management and organizational realignment program which is designed to pinpoint areas of profit responsibility and provide precise means of measuring the effectiveness of the operating management by the return on investment produced by each.

To guide and direct the managing officers, a central management group has now been completed to formulate broad corporate policies and to correlate interdivisional activities.

A new structure for centralized buying has been set up to take increasing advantage of the diversified buying experience existing throughout the billion dollar Gamble-Skogmo organization.

During the year, additional steps were taken to extend even further the company's



C. C. RAUGUST



B. C. GAMBLE

strong position in the franchise field—the future of franchising appears unlimited. Gamble-Skogmo is proud to have been a pioneer in this field some 35 years ago. Plans call for considerable expansion of the franchise operations in the year ahead, including the conversion of company-owned retail units to individually-owned franchised stores where such action will improve the present marketing penetration on a more profitable basis.

Strengthening the capital base of the company was accomplished by means of subordinated income notes which brought the capital account total to \$189 million.

Late in the year, a commercial bank was acquired in downtown St. Paul. Management feels that banking is compatible with its operations and will complement other financial services offered by the company.

Of importance, too, is the substantial growth of The John Alden Life Insurance Company, whose life insurance in force has increased from \$18 million in 1964, when it became part of Gamble-Skogmo as a result of the Alden's merger, to a present figure of over \$500 million.

Early in 1968 we made a tender offer for 100,000 shares of the J. M. McDonald Co. for cash. All shares tendered were

accepted and, at the present time, plans are being implemented to acquire the remaining McDonald shares. The J. M. McDonald Co. is a 90-unit department store chain with headquarters at Hastings, Nebraska. The business of the company, which has enjoyed phenomenal growth, is thoroughly compatible with the various Gamble-Skogmo operations and adds materially to its strength in this area of retailing.

We believe that various steps taken to strengthen management and operations have created highly favorable possibilities for the future. The loyalty and cooperation of our employees, franchised dealers, suppliers and shareholders is deeply appreciated. Together we can achieve our mutual objectives.

Carl C. Raugust, President

Bertin C. Gamble, Chairman of the Board

April 10, 1968

Sales again increased—during the past five years have more than doubled and are now at the annual rate of over \$1 billion.

SALES

Consolidated net sales, including leased departments, again reached a new record high of \$883,530,476 for the fiscal year ended January 27, 1968.

On a fully comparable basis, sales increased 5.4 percent over the previous fiscal year adjusting for the acquisition of Red Owl Stores, Inc. and the disposition of Shoppers World stores. Had Red Owl been included for all of 1967, Gamble-Skogmo sales would have been approximately at the one billion dollar mark.

EARNINGS

Earnings for the year were affected by higher labor, money, postage, printing, paper and other related costs and expenses which largely reflected prevailing inflationary pressures and which rose more rapidly than it was possible to effect offsetting price adjustments, and therefore were below those of a year earlier. Earnings were also affected by lower farm income and by steps taken which involved foregoing current earnings for greater future profits.

Consolidated net income from operations, after Federal, State and Canadian taxes on income, amounted to \$11,290,952 for 1967 and was equivalent to \$2.62 per share on the average of 3,089,082 shares of common stock outstanding during the year, after provision for preferred dividends. This compares with 1966 earnings of \$12,665,267 or \$3.07 per share, on the average of the 3,074,167 shares outstanding during that year.

Earnings for 1967 include those of Red Owl Stores, Inc. from July, 1967, when the results of operations for that company were consolidated with those of Gamble-Skogmo following the latter's acquisition of an 80.4 percent interest in Red Owl.

DIVIDENDS

Regular quarterly cash dividends of 32½ cents per share were paid on the common stock on April 30, July 31, October 31, 1967 and January 31, 1968 for a total of \$1.30 a share as against the \$1.25 a share paid a year earlier.

During the year, four regular quarterly dividends of 43¾ cents per share were

paid on the \$1.75 Cumulative Preferred Stock and of 40 cents per share on the \$1.60 Cumulative Preferred Stock.

On April 1, 1968, the Board of Directors declared a regular quarterly dividend of 32½ cents on the common stock, 43¾ cents on the \$1.75 Cumulative Preferred Stock and 40 cents on the \$1.60 Cumulative Preferred Stock, all payable on April 30 to stockholders of record on April 17.

The company has paid dividends in each of the forty years since its incorporation in 1928.

FINANCIAL POSITION STRENGTHENED

During the year, capital funds were increased by the issuance of Gamble-Skogmo, Inc. Subordinated Income Notes, 7% Series B of 1977, in the amount of \$22,717,700 for the acquisition of 80.4 percent of the common stock of Red Owl Stores, Inc. In addition, \$4,518,400 of the Series A Subordinated Income Notes were sold during the fiscal year. The notes are held by approximately 3,500 persons, including many customers, largely situated in the company's principal trade areas, which provides a broad distribution. Both series are subordinate to all other debt and have distinct advantages to the company over other methods of increasing the capital structure.

Amendments were made during the year to the two revolving credit agreements which extended the term and increased the maximum amount to \$80,000,000. The First National Bank of Chicago, acting as agent for eighteen other institutions, amended the original agreement involving six banks to \$60,000,000. This is in addition to an agreement with the Bank of Nova Scotia for \$20,000,000. Interim loans available under the agreements may be converted into term loans at the option of the company. Commitment fees are payable on that portion not used as interim borrowings under the respective agreements.

Consolidated net working capital amounted to \$299,871,366 as of January 27, 1968 compared with \$233,652,827 a year earlier. Current assets of \$474,582,406 were 2.72 times total current liabilities of \$174,711,040.



Increased customer traffic enabled us to achieve another year of record sales.

Management and organizational realignment programs have been completed to establish centers of profit accountability.

PROFIT CENTER STRUCTURE ESTABLISHED

Continuing Gamble-Skogmo's program for realigning the company's organizational and management structure to maximize the growth opportunities presented by the tremendous expansion of recent years, the earlier steps which were outlined in the 1966 report, the company completed the establishment of a profit center structure currently comprised of twenty divisions and subsidiaries or centers of profit accountability. Each profit center is under the direction of a responsible officer who is accountable to central management but who, in keeping with long-established policy, retains the highest practicable measure of decision and initiative with regard to his particular segment of the overall enterprise.

A summary of the new profit center structure, together with the principal activities encompassed by each center, and the managing officer, will be of assistance in arriving at a clear picture of Gamble-Skogmo as it is presently organized and has been included on the inside back cover of this report.

FURTHER ORGANIZATIONAL PROGRESS

Programs also have been initiated to realign the company's operations and structure in terms of the potentialities inherent in the present situation. The new programs relate to intensified and expanded activities in the area of franchised operations, segregation of financial services from strictly retailing activities, and a research, planning and development program designed primarily to coordinate real estate and retail marketing activities consistent with the rapid changes taking place in merchandising.

As a pioneer in independent franchised store operations over three decades ago, the company has expanded its marketing influence into many geographical locations which probably could not otherwise be serviced profitably by a mass merchandiser; and with about 75 percent of its total retail outlets presently in the franchised category, Gamble-Skogmo continues in an exceptionally strong position in this area of proven superior return on invested capital. An important source of the company's strength with its independent franchised dealers is its services with regard to centralized buying, promotion, store layout, management procedures, instalment credit and related activities.

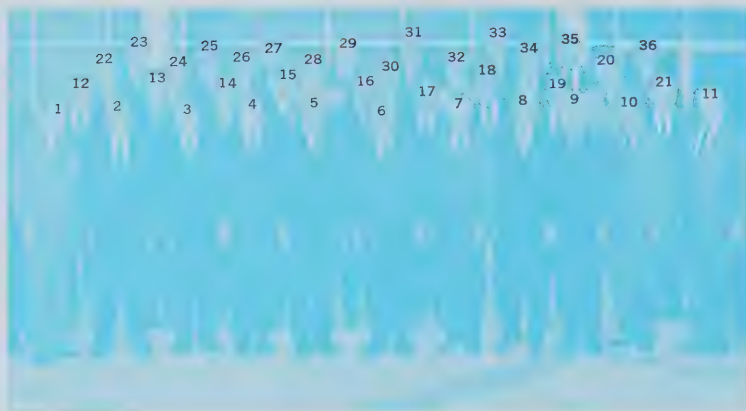
In view of promising opportunities existing in this field, the company has embarked upon a new, intensified franchised dealer program and has assigned a member of corporate management to its overall supervision. Included in the new program is the conversion of certain company-owned units to franchised operation where such action presents the opportunity of increasing market penetration on a more profitable basis, especially with regard to some of the smaller branch stores; the possibility of developing certain larger merchandise centers on a franchise basis; and the potentialities of opening Aldens catalog sales desks in selected franchised units.

In order to derive the benefits of simplicity and organizational independence of the company's principal credit units, a program has been initiated to create a central receivables financing entity which will ultimately service all of Gamble-Skogmo's domestic merchandising operations. In the past, the company's customer instalment receivables have been carried in and financed by several different corporate units, the most important of which are the Gamble-Skogmo Acceptance Corporation and Aldens, Inc.



Heads of Gamble-Skogmo profit centers and other company management members meet to discuss recent and planned progress.

1. G. S. YOUNGER, *President, Gamble Stores Division*
2. W. H. LOLLAR, *President, Rasco Stores Division*
3. S. P. WOOLEVER, *President, Stedmans Division*
4. W. A. BOSS, *President, Gambles Continental State Bank*
5. L. W. RIXE, *Vice President and Controller, Gamble-Skogmo, Inc.*
6. C. C. RAUGUST, *President, Gamble-Skogmo, Inc.*
7. E. C. MOORE, *President, Tempo Stores Division*
8. J. B. CHEYNE, *President, Gamble Drugs Limited*
9. H. D. NELSON, *President, Gambles Import Corporation*
10. J. H. WILLE, *Vice President, Retail Operations, Red Owl Stores, Inc.*
11. A. C. SHEDDEN, *Executive Vice President for Retail and Mail Order Operations, Gamble-Skogmo, Inc.*
12. C. R. WUNDERLICH, *President, Aidens, Inc.*
13. W. H. DAVIES, JR., *Executive Vice President for Finance and Treasurer, Gamble-Skogmo, Inc.*
14. L. E. DOLAN, *Executive Vice President for Legal and Secretary, Gamble-Skogmo, Inc.*
15. I. M. MALOUF, *President, Mode O'Day Division*
16. B. F. DAVIDSON, *Vice President, Gamble-Skogmo, Inc.*
17. J. H. McCORMICK, *Vice President, Finance, Rasco Stores Division*
18. H. A. JOHNSON, *Vice President, Mail Order Sales and Merchandise Manager, Aidens Inc.*
19. M. EISEN, *President, Eisen Mercantile, Inc.*
20. J. A. WATSON, *President, Red Owl Stores, Inc.*



21. P. R. RONEBERG, *Vice President for Management Information, Gamble-Skogmo, Inc.*
22. P. C. FIKKAN, *Executive Vice President, Gamble MacLeod Limited*
23. R. B. SUTHERLAND, *President, Marshall Wells Limited*
24. A. G. JOHNSON, *Executive Vice President for Buying and Merchandising, Gamble-Skogmo, Inc.*
25. R. F. FARRINGTON, *Group Manager—Staples Division, Gamble-Skogmo, Inc.*
26. A. PALEY, *President, Gamble Corporate Buying*
27. W. S. EGKEVIST, *Consultant, Gamble-Skogmo, Inc.*
28. R. G. LEHNER, *President, Cussins & Fearn Division*
29. A. G. KIRKNESS, *President, Gamble MacLeod Limited*
30. B. F. RUTHERFORD, *President, MacLeods Division*
31. J. P. GOAN, *President, Gamble-Alden Securities Inc.*
32. E. O. WACK, *Vice President for Franchise Operations, Gamble-Skogmo, Inc.*
33. R. W. HILL, *Vice President for Hardlines Buying, Gamble-Skogmo, Inc.*
34. R. E. RILEY, *President, Gamble Department Stores, Inc.*
35. R. W. JOHNSON, *Vice President for Softlines Buying, Gamble-Skogmo, Inc.*
36. L. D. BERKUS, *President, Snyder's Drug Stores, Inc.*

Management and supervisory staff have been strengthened and buying functions have been centralized.

NEW CENTRAL MANAGEMENT GROUP FORMED

Also as part of the company's realignment program, the formation of a new central management group was completed in 1967. The group will be responsible for the formulation of broad corporate policies as well as for providing overall guidance and specialized assistance to the company's various profit centers. New positions of functional responsibility were created as part of the realignment in the areas of centralized buying; supervision and development of franchised operations; management information, including computer operations and related information collection, analysis and evaluation; and real estate and retail development.

More recently, operations of the central group were further streamlined with the creation of four Executive Vice Presidencies: W. H. Davies, Jr. for Finance and Treasurer; L. E. Dolan for Legal Affairs and Secretary; A. G. Johnson for Buying and Merchandising; and A. C. Shedden for Retail and Mail Order Operations.

SUPERVISORY RESOURCES FURTHER STRENGTHENED

As indicated by newly created positions included in the central management structure, resources and facilities for the supervision and control of profit center operations, as well as for the rapid and timely provision of data pertinent to decision making, were strengthened significantly during the past year.

The buying function has been centralized in order to further increase efficiency and simplify operations, consolidate the company's buying volume, and take advantage of the diversified buying experience existing throughout the entire organization. Initial experience has indicated that the new procedures are effecting substantial economies by consolidating sources of supply and concentrating efforts on the merchandising of a lesser number of high quality lines and items.

Of special significance has been the consolidation and centralization of data gathering, analysis and distribution, both as an aid to more efficient day-to-day operations and as a guide to management decisions. Included in this function, which is headed by a Vice President for Management Information, is the use of computers and communication facilities, together with the techniques of operations research and systems analysis. During the year the newest third-generation computer equipment was installed in the majority of profit centers.

MANAGEMENT ADDITIONS

A. C. Shedden was added to the Board of Directors at the annual meeting of stockholders. Mr. Shedden joined the company as Vice President and Assistant to the President of Aldens, Inc., having formerly been associated with Simpson-Sears Limited in Canada as general merchandise manager.

Four other executives have joined the company as vice presidents and members of the corporate management group.

E. O. Wack was elected Vice President for Franchise Operations. Mr. Wack was formerly President of McCrory-McLellan-Green Stores and prior to that, Executive Vice President of City Products.

L. W. Rixe, formerly Vice President—Finance of Red Owl Stores, Inc., joined Gamble-Skogmo as Vice President and Controller.

Early in 1968 R. W. Johnson became Vice President for Buying. Mr. Johnson formerly held various merchandising posts at Aldens for fourteen years.

J. E. Gottlieb has been elected Vice President for Real Estate and will be President of the newly-formed Gamble Development Company. Mr. Gottlieb is also Vice President in charge of administration and real estate for Red Owl Stores, Inc.



Centralized buying is an example of continued progress in the coordination of the company's varied merchandising activities.

New headquarters facility will improve service and efficiency while diversified merchandising activities expand.

CHANGING RETAIL MARKETING CONCEPTS

A move has been made to further implement the company's plans for carrying forward its philosophy of the integrated development of a shopping center concept which could include the establishment of shopping centers in which various Gamble-Skogmo units could either dominate or play a large part in such centers, while retaining the specialty shop atmosphere.

The company has recently organized a wholly-owned subsidiary, Gamble Development Company, to carry out this philosophy, and provide a strategic focal point for the coordination of retail marketing concepts with the rapid changes taking place in retail distribution.

Special opportunities exist for as diversified a merchandising operation as Gamble-Skogmo in view of the present trend to all purchasing—food, softlines, hardlines, small-ticket items and large-ticket items—to become increasingly more of a family enterprise rather than an individual undertaking and thus to become a highly acceptable way of living. In the opinion of management, this will affect all of retailing—individual stores, shopping centers, shopping malls, metropolitan centers and smaller communities—and is a trend to which the company's operations are especially well adapted.

NEW HEADQUARTERS NEARS COMPLETION

The present headquarters, which the company has occupied since 1945, have become obsolete in terms of facilities, and are also overcrowded to the point of impairing efficiency.

The new Gamble Center which is being constructed in suburban Minneapolis to meet this pressing need, is currently nearing completion and is scheduled for occupancy about mid-year.

In addition to serving as headquarters for the parent company and for the Gamble Stores and Tempo Stores Divisions, the new home office also will contain a computer center which will serve as the focal point for data collection, analysis and distribution for the overall enterprise.



The almost completed new headquarters building will be ready for occupancy soon. Though the shopping center is not contemplated as shown, it is symbolic of the varied merchandising services offered by the company.

Red Owl Stores and Gambles Continental State Bank played an important role in another year of growth and development.

RED OWL MATERIALLY DIVERSIFIES AND EXPANDS MERCHANDISING

Undoubtedly one of the most important additions to materially increased diversification and greatly expanded merchandising operations to be concluded during the rapid growth of recent years was the company's acquisition of an 80.4 percent interest in Red Owl Stores, Inc., effective July, 1967, and the consolidation of its results into those of Gamble-Skogmo.

A number of important benefits have accrued from the incorporation of Red Owl into the overall enterprise. Inclusion of Red Owl has brought the company's sales on annual basis to a rate in excess of \$1 billion and has placed it among the nation's top general merchandising organizations. Red Owl's large-scale food merchandising and related processing activities, together with its Snyder drug chain, has enabled Gamble-Skogmo to firmly establish itself as an important distributor of two additional mass merchandising product categories in a twelve-state area wherein its retail operations have the highest degree of concentration. It also enables the company to take advantage of the potentialities inherent in combining the dynamics of large-scale food, drug and beauty aid merchandising with hard and softline merchandising. The benefits resulting from such a combination in the way of mutual stimulation of traffic flow and sales already has been demonstrated at the locations where Red Owl and Tempo stores now adjoin each other.

Results of Red Owl Stores were highly satisfactory and reflected the new aggressive sales program instituted in 1967, together with the divestiture of certain unprofitable operations. Of particular interest are the two new Red Owl stores opened in the Minneapolis metropolitan area in the latter part of the year, one of which combines a Red Owl grocery and a Snyder drug unit, while the other combines a grocery outlet with a Mode O'Day ladies ready-to-wear shop. Both stores are unique in that they are octagonal in construction, thus providing exceptionally easy access to all departments and adding to overall attractiveness. This design has attracted wide attention among retailing organizations.

BANK IN ST. PAUL ACQUIRED

The company also expanded into banking, with emphasis upon retail banking services, with the purchase of the Downtown State Bank of St. Paul, whose name was subsequently changed to Gambles Continental State Bank. Purchase was made in view of the increasingly close relationships that are developing between banking and merchandising operations.

MCDONALD ACQUISITION IN PROCESS

Early in 1968 the company made a tender offer for 100,000 shares of the J. M. McDonald Co. for cash. All shares tendered were accepted and, at the present time, plans are being implemented to acquire the remaining McDonald shares.

The J. M. McDonald Co., with headquarters in Hastings, Nebraska, operates 90 McDonald department stores in eleven western states and is acknowledged to be a key merchandiser in the area it serves. Sales have risen from \$24 million in 1960 to a new high of \$34,150,794 for the 1967 fiscal year ended January 31, 1968. Net income has tripled during the same period and for fiscal 1967 was at a new high of \$838,807, or \$1.54 a share on the 543,924 shares of common stock currently outstanding. The addition of McDonald will bring to 114 the number of conventional department stores associated with Gamble-Skogmo.



An interior view of the new Gambles Continental State Bank in St. Paul. A family shopping scene at the Red Owl store located at Southdale, in a suburb of Minneapolis.

All the company's divisions expanded their activities and facilities for future growth and progress.

OTHER PROGRESS IN MERCHANDISING

Substantial progress was made during the past year in further improving and expanding merchandising operations and facilities of various company divisions.

Five new Tempo mass merchandising self-service department stores were opened, bringing to 58 the number of Tempo units presently in operation. During the year, three Buckeye Mart discount stores also were opened, bringing the total of such outlets to fifteen.

A substantial number of traditional hardlines stores were remodeled to include more high-traffic lines such as health and beauty aids, records, greeting cards, gifts, books, candy and similar items, while certain slower moving lines were dropped. Results of the program have been highly satisfactory and have exceeded original expectations.

The company's Rasco Division further advanced its program of increasing its number of large-size units by the purchase of two Miracle Mart low-margin department stores in California.

With regard to the catalog operations of the company's Aldens subsidiary, the use of computers was greatly expanded, buying procedures were more closely coordinated and simplified, and a program was instituted to place greater emphasis upon the fashion aspects of the Gamble Aldens catalog.

A particularly interesting development was the establishment, on a pilot basis, of retail appliance selling units of about 600 square feet on the floors of selected catalog sales offices. Experience thus far has been highly encouraging with respect to the volume of sales generated by this combination, which, it is anticipated, will be applied more broadly throughout the organization.

Further important progress was made with regard to the company's Canadian merchandising operations. Additional family shopping center stores were established by the Macleod Division, other stores were modernized and enlarged and merchandise lines were generally broadened. A similar program was continued by the Stedman Division and the merchandise lines carried by Stedman franchised dealers continue to be expanded to include items such as automotive supplies, appliances, heavy power tools, hardware and sporting goods.

Gamble-Skogmo now consists of 575 company-owned general merchandise and variety stores, 185 company-owned grocery units, 32 drug stores, 81 mass merchandising self-service department stores, 24 conventional department stores, 104 catalog and telephone sales offices, and 3,349 authorized dealer stores, for a total of 4,350 merchandising outlets.

SHOPPERS WORLD DIVESTITURE

During the latter part of the year, the company sold the 14 Shoppers World stores which had been part of Aldens, Inc., and entered into an agreement to sell its five Gamble Discount department stores in the Kansas City area. Transfer of ownership of the Kansas City stores was completed on April 1 of this year. Proceeds from the sale will be employed in the expansion of other merchandising operations.

TOWARD BROADER HORIZONS

As is apparent from its marked growth in recent years, Gamble-Skogmo has made substantial progress in broadening its horizon into new areas closely related to its basic merchandising operations.

As an example, insurance in force with The John Alden Life Insurance Company currently amounts to over \$500 million. This contrasted to slightly under \$18 million at the time of the merger of Aldens into Gamble-Skogmo. During the same period, premium income rose from under \$600,000 to more than \$5 million. Further vigorous growth is anticipated.



Life insurance and investment counseling are among the many services the company offers.





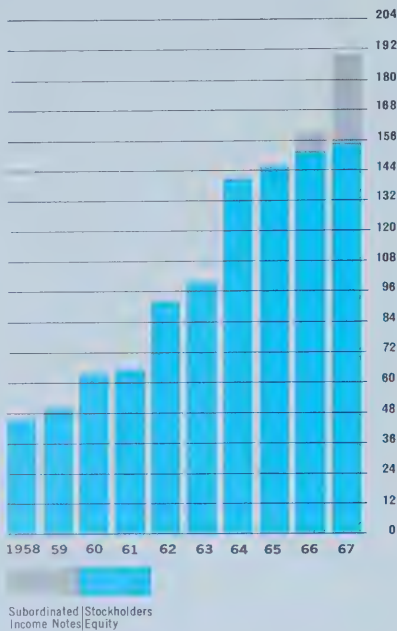
GAMBLE-SKOGMO, INC.

This map is intended only to show the geographical scope and density of our retail outlets. The red symbols represent the addition of a new food and drug merchandising activity in 1967.

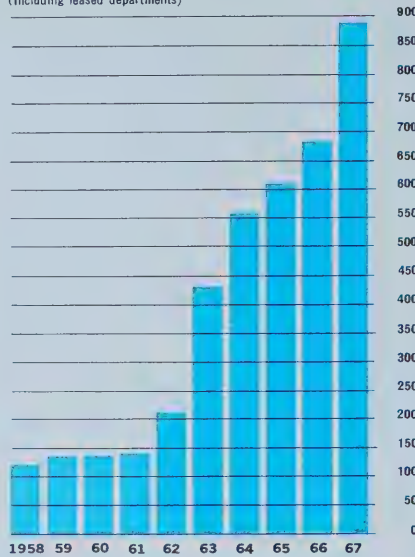
Retail Outlets

- IN U.S.A.
Gamble Company-owned and Franchised Stores
Tempo Self-Service Department Stores
Skogmo Franchised Stores
Mode O'Day Company-owned and Franchised Stores
- IN CANADA
Macleods Company-owned and Franchised Stores
Marshall Wells Company-owned and Franchised Stores
Clarks Department Stores
- ▲ IN U.S.A.
Aldens Catalog Sales Stores and Telephone Sales Offices
Department Stores
Eisen Company-owned and Franchised Stores
- ▲ IN U.S.A.
Rasco Company-owned and Franchised Stores
Cussins and Fearn Stores
Buckeye Marts
- ▲ IN CANADA
Stedmans Company-owned and Franchised Stores
- IN U.S.A.
Red Owl Company-owned and Franchised Stores
Snyders Drug Stores

Capital Funds in millions of dollars



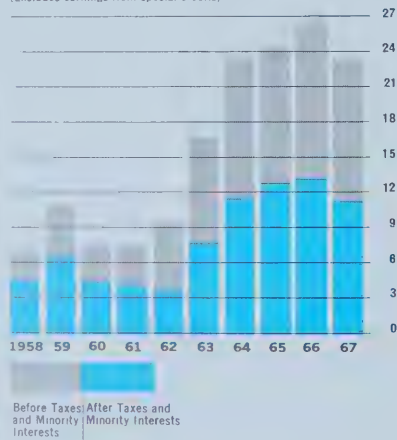
Net Sales in millions of dollars
(Including leased departments)



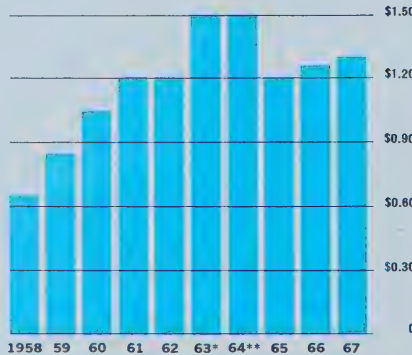
Number of Outlets



Earnings in millions of dollars
(Excludes earnings from special credits)



Dividends per common share



*Includes extra dividend of \$.30 per common share.
**Includes regular dividends for five quarters due to fiscal year end change to January 31, 1965 and excludes 3% stock dividend.

Gamble-Skogmo, Inc. 3,443 Domestic Stores by State

STATE	Gamble Branches	Gamble Dealers	Skogmo Dealers	Tempo* Dept. Stores	Cussins & Fearn Stores	Rasco Variety Stores	Rasco Franchise Dealers	Mode O'Day Co. Owned Frock Shops	Mode O'Day Dealers	Aldens Catalog Sales Offices	Aldens Tele- phone Offices	Depart- ment Stores (Aldens)	Eisen Branches	Eisen Dealers	Red Owl Food Stores	Red Owl Franchised Dealers	Snyder Drug Stores
Alaska.....									2								
Arizona.....						2	9	1	12					1			
Arkansas.....		2						5	17								
California.....						†12	66	19	197			1	1				
Colorado.....	13	71	3	4				1	23		1	2		2	5		
Florida.....									5								
Hawaii.....									2								
Idaho.....	1	12		4					15								
Illinois.....	10	105	4	3				2	34	26	2	4	1	12			
Indiana.....	4	39	2	1				1	12	10		5	4	4			
Iowa.....	30	112	15	2				5	33	5	1	2	2	7	2	9	
Kansas.....	12	84	10	5				2	30	1			10	3	17		
Kentucky.....		7							1	4		3		1			
Louisiana.....								1				1					
Maine.....												1					
Maryland.....											1						
Michigan.....	17	132	15	6				1	13	16	1	1	2	3	9	16	
Minnesota.....	22	200	51	8				1	9					1	77	111	30
Mississippi.....								1									
Missouri.....	5	67		5				3	35	3	1		6		9		
Montana.....	10	64	6	3					7						1		
Nebraska.....	17	121	15	4				1	16								
Nevada.....							1	1	7								
New Mexico.....	2	22		3		1	10		14					3			
New York.....											4						
North Dakota.....	7	60	15	4					1						18	41	
Ohio.....	3	14			**33			2	5	16	1	1	2	4			
Oklahoma.....	1	5						2	13		1		4		1		
Oregon.....							1		47								
Pennsylvania.....											2	1	1				
South Carolina.....												1					
South Dakota.....	7	77	13	3				1	1					1	9	34	
Tennessee.....		1										1					
Texas.....		3						5	51								
Utah.....		2						1	18								
Washington.....		1															
Wisconsin.....	23	167	44	3				2	51	8			1	14	36	66	2
Wyoming.....	7	22		1					9						1	1	
Total.....	191	1390	193	59	33	15	103	58	688	89	15	24	34	56	185	278	32

*Includes five Gamble Department stores in Kansas City area sold subsequent to year end.

**Includes 18 regular retail stores and 15 Buckeye Marts.

†Includes three Rasco Mass Merchandising stores.

Gamble Macleod Limited 907 Canadian Stores by Province

PROVINCE	Macleods		Stedmans		Clark's Gamble Ltd.	Marshall Wells	
	Branches	Dealers	Branches	Dealers		Branches	Dealers
Alberta.....	31	48	7	30		10	92
British Columbia.....	7	4	19	21		10	77
Manitoba.....	12	40		6	3	4	48
New Brunswick.....			16	4			
Newfoundland.....			1				
Nova Scotia.....			22	6			
Ontario.....	3	4	69	109	1	2	6
Prince Edward.....			2	3			
Quebec.....			2	4			
Saskatchewan.....	27	61	6	17		12	59
Northwest Territories.....							2
TOTAL.....	80	157	144	200	4	38	284

Commitment to Franchising

Franchising is perhaps the fastest growing segment of business in the United States. In 1963 the value of goods and services sold under franchise amounted to \$60 billion. Last year, only four years later, this figure has increased 30 percent to more than \$77 billion, approximately 25 percent of all retail sales and 10 percent of the nation's gross national product.

Gamble-Skogmo was a pioneer in the development of the modern franchised store, and today serves 3,349 franchised retail outlets in 43 states and all but one of the Canadian provinces.

The company's oldest existing franchised outlet is the Gamble store at Boscobel, Wisconsin, which was opened during the depth of the great depression of the '30s. On March 11 of this year, the owners and operators of the Boscobel store, Mr. and Mrs. Jack Curry, celebrated their 35th anniversary as a Gamble franchisee.

At the present time approximately 25 percent of the company's total revenues is derived from distribution through franchised units. It is estimated that the retail value of goods sold in these stores last year exceeded \$350 million.

Today, the discriminating franchise prospect has a wide variety of Gamble-Skogmo franchises from which to choose.

We can offer opportunities to own and operate retail hardlines stores, food stores, variety stores, fabric shops, drug stores or ready-to-wear shops.

Today, a total of twelve franchises—with an enviable record of success—are available to qualified applicants. An entire shopping center could consist entirely of compatible Gamble-Skogmo franchise holders.

The advantages of franchising—both to the parent company and to the operator—are great.

To the parent company, the granting of franchises enables the company to grow, to increase its purchasing power, to expand its wholesale distribution, and to penetrate new markets. These results can be accomplished without local investment in real estate, working capital or manpower.

Since franchises are granted preponderately in the smaller population centers, frequently in rural communities, the parent company benefits from the additional energy derived from the proprietary interest of the owner-operator and the community relations advantages of local over absentee ownership.

To the operator, franchising in general has great appeal because of the desire within every man to be his own boss—to own his own business.

Gamble-Skogmo franchises have special appeal to prospective operators who are quick to recognize that behind each one is the strength and power of one of the largest merchandising and buying complexes in the world. Available, too, is the know-how and specialized skills of qualified staff personnel to assist independent merchants with their advertising, merchandising, sales promotions, accounting, store controls, consumer relations, and other areas of retailer responsibility.

The automated distribution centers of Gamble-Skogmo and its subsidiaries—many of them with computerized order filling, billing and inventory controls—provide low cost single-source availability to owner-operators of franchised stores.

Gamble-Skogmo has adopted a program of upgrading franchised operations, enlarging store facilities, and expanding merchandising lines in existing outlets. This additional investment on the part of the owner-operator will generate additional retail sales, and enable him to keep ahead of his competition and further advance his position as a leading retailer in his community.



Our oldest franchise, the Gamble Store in
Boscobel, Wisconsin, recently celebrated its
thirty-fifth anniversary.

Commitment to Franchising *continued*

Accelerated recruiting is under way to seek qualified applicants for the wide variety of franchise agreements offered.

It has been said that the days of the independent retailer in America are numbered because of the discounters and mass merchandisers. Nothing could be further from reality. The national chains have continued to build ever larger retail units in the great urban areas of highly concentrated population. This development, however, overlooks the ever-expanding opportunities presented by the many prosperous rural communities and their adjoining trading areas where growing affluence and consumer sophistication demands high quality merchandise of the latest style and design. The advent of the automobile, radio and television has placed rural consumers in the position of knowing exactly what merchandise is available in large metropolitan centers. They, too, demand this same merchandise, and if the small town merchant wishes to remain in business and enhance his competitive position, he must satisfy these demands. This situation is creating a growing number of markets particularly suited to franchised operations.

A franchise is attractive to a prospect if he can be shown a reasonable opportunity for a better-than-average return on his investment and his efforts. Gamble-Skogmo can show him a favorable record of successful franchised businesses in a wide variety of retail operations. Moreover, he can be assured that the merchandising program under which he will operate will give him the support and power to meet competition and serve his community today and for the foreseeable future.

In the United States, Gamble-Skogmo franchises include:

Gambles dealers sell hardlines such as appliances, television, radio, and stereo sets, hardware, housewares, furniture, sporting goods, automobile accessories, lawn and garden equipment, paint and supplies.

Skogmos stores, primarily softlines outlets, specialize in clothing for the entire family, as well as a complete line of domestics, linens and notions.

Mode O'Day shops sell women's and children's apparel, sportswear, lingerie, and accessories.

House of Fabrics outlets carry quality, high fashion fabrics and related lines.

Rasco distribute a wide assortment of variety store merchandise.

Red Owl food stores carry a complete line of meat, produce, bakery products, dry groceries, and health and beauty aids.

Snyder Drug is negotiating its first franchised drug outlet.

Canadian franchises available are:

Macleods units sell a "department store" assortment of quality merchandise at highly competitive prices.

Stedmans dealers offer softlines, notions, domestics, footwear, drugs, home furnishings and variety merchandise.

Marshall Wells hardware stores specialize in tools, building materials, farm, garden, plumbing and heating supplies, sporting goods, housewares, automotive accessories, appliances, and furniture.

Crest hardware outlets, serviced by Marshall Wells, sell hardlines and general merchandise.

Super Thrifty retail drug franchises are available, offering a complete line of pharmaceuticals, health and beauty aids, and related items.



Mode O'Day is one of several new franchise opportunities we have made available in recent years.

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

(The company changed its fiscal year end from January 31 to the last Saturday in January. This resulted in a 52-week period in 1967.)

Significant Comparisons

	1967 ⁽¹⁾	1966 ⁽³⁾	1965 ⁽³⁾
Sales:			
Including Leased Depts.....	\$883,530,476	\$682,365,336	\$608,243,214
Net (Excluding Leased Depts).....	862,220,988	657,532,341	582,720,970
Earnings Before Income Taxes and Minority Interests.....	23,864,345	26,661,271	24,519,383
Provision for Income Taxes.....	12,191,024	13,815,111	11,980,773
Minority Interests in Earnings of Subsidiaries.....	382,369	180,893	—
Net Earnings (2).....	11,290,952	12,665,267	12,538,610
Net Earnings Per Common Share (2).....	2.62	3.07	3.03
Cash Dividends.....	7,228,426	7,058,288	5,426,060
Dividends Paid Per Common Share.....	1.30	1.25	1.20
Stockholders' Equity.....	155,787,861	151,725,335	145,953,059
Book Value Per Common Share.....	26.87	25.55	23.76
Book Value Per Common Share Assuming Conversion of Preferred Stock.....	30.80	29.99	28.91
Operating Companies: (4)			
Inventories.....	178,318,532	162,742,874	142,636,279
Current Assets.....	257,218,483	337,881,321	304,190,964
Current Liabilities.....	100,208,488	139,031,898	136,597,408
Net Working Capital.....	157,009,995	198,849,423	167,593,556
Current Ratio.....	2.57 to 1	2.43 to 1	2.23 to 1
Number of Shareholders.....	17,059	16,476	16,576
Number of Full Time Employees.....	26,375	22,804	20,833
Number of Company Owned Stores.....	897	689	659
Number of Company Owned Catalog Offices.....	104	119	111
Number of Authorized Dealers.....	3,349	3,104	3,115
Number of Warehouses.....	31	24	22

(1) See Note (1) of notes to consolidated financial statements.

(2) Excludes income from special credits of \$285,185 or \$.09 per common share in 1965, \$3,946,734 or \$1.28 per share in 1964, \$4,484,899 or \$1.60 per share in 1963, \$11,598,557 or \$4.35 per share in 1962, \$2,304,691 or \$.87 per share in 1961 and \$15,089,440 or \$5.69 per share in 1960.

(3) Restated to include operations of companies merged with Gamble-Skogmo, Inc. as follows: 1962 to include General Outdoor Advertising Company, Inc. and subsidiaries. 1963 to include Aldens, Inc. and Consolidated subsidiaries except for statistics marked * which are not restated. 1964 to include Founders, Incorporated and subsidiaries.

1965 restated to include five wholly-owned real estate subsidiaries.

1966 restated to reflect consolidation of wholly-owned finance subsidiaries.

(4) 1967 working capital statistics excludes Gamble Aldens Finance Co. operations which were previously consolidated with the Operating Companies.

(5) Includes cash dividends for five quarters due to change in accounting period from calendar to fiscal year ending January 31 and excludes 3% stock dividend.

(6) Includes extra dividend of \$.30 per common share.

1964 ⁽³⁾	1963 ⁽³⁾	1962 ⁽³⁾	1961	1960	1959	1958
\$555,462,800	\$430,761,558	\$209,499,171	\$140,886,901	\$143,369,286	\$143,123,142	\$119,821,596
533,251,668	413,319,479	203,514,468	140,886,901	143,369,286	143,123,142	119,821,596
23,080,736	16,532,774	9,039,280	7,518,763	7,268,415	10,757,615	6,988,694
11,810,383	8,811,518	5,612,532	3,707,973	3,209,200	4,547,710	2,593,248
—	—	—	—	—	—	—
11,270,353	7,721,256	3,426,748	3,810,790	4,059,215	6,209,905	4,395,446
2.59	1.61	.89	1.44	1.50	2.27	1.56
4,383,293	4,071,618	3,191,791	3,182,791	2,869,895	2,430,760	1,906,190
1.50(5)	1.50(6)	1.20	1.20	1.05	.85	.65
140,087,360	98,213,159*	92,424,947	65,933,118	63,000,455	50,126,616	46,480,322
21.86	26.49*	25.70	24.86	23.75	17.62	16.19
27.75						
115,760,507	61,629,968*	57,115,687	37,522,953	39,051,119	33,877,723	27,615,238
290,092,125	94,600,129*	90,928,590	57,388,809	69,758,212	58,073,440	45,697,219
121,845,316	33,363,156*	41,802,163	20,033,663	16,057,718	22,291,316	13,208,441
168,246,809	61,236,973*	49,126,427	37,355,146	53,700,494	35,782,124	32,488,778
2.38 to 1	2.84 to 1*	2.18 to 1	2.86 to 1	4.34 to 1	2.61 to 1	3.46 to 1
15,401	14,780	11,049	8,155	7,782	8,533	8,373
18,588	14,373	7,057	3,961	3,874	3,757	3,719
617	527	495	337	330	323	325
107	106					
2,826	2,040	2,075	1,932	1,935	1,869	1,839
16	12	9	8	8	7	8

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheet / January 27, 1968 with Comparative Figures at January 31, 1967

Assets	1968				1967 (note 1)
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	Consolidated
Current Assets:					
Cash	\$ 25,560,624	\$ 4,767,856	\$ 818,839	\$ 31,147,319	\$ 16,394,454
Receivables (note 2)	43,596,600	218,453,216	713,777	254,980,365	245,032,088
Inventories at lower of cost or market	178,318,532	—	—	178,318,532	162,742,874
Prepaid expenses	9,742,727	389,847	3,616	10,136,190	8,730,639
Total Current Assets	<u>257,218,483</u>	<u>223,610,919</u>	<u>1,536,232</u>	<u>474,582,406</u>	<u>432,900,055</u>
Investments (note 1):					
Investments in subsidiaries	63,246,330	—	—	2,730,401	2,047,818
Other securities and notes receivable, at cost	5,778,729	4,476,313	62,433	6,644,075	4,540,566
Total Investments	<u>69,025,059</u>	<u>4,476,313</u>	<u>62,433</u>	<u>9,374,476</u>	<u>6,588,384</u>
Property and equipment—net (note 3)	60,908,129	—	32,254,547	93,162,676	69,192,637
Intangible assets, arising in connection with acquisition of subsidiary companies (note 4).	28,214,656	—	—	28,214,656	26,904,789
Deferred charges and miscellaneous assets	7,842,524	418,784	288,068	8,145,376	5,399,009
	<u>\$423,208,851</u>	<u>\$228,506,016</u>	<u>\$ 34,141,280</u>	<u>\$613,479,590</u>	<u>\$540,984,874</u>

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	1968				1967 (note 1)
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	Consolidated
Current Liabilities:					
Notes payable	\$ 12,466,845	\$ 45,566,882	\$ —	\$ 58,033,727	\$106,045,136
Current instalments of long-term debt	2,014,675	3,564,000	1,002,882	6,581,557	3,640,273
Accounts payable and accrued liabilities	78,595,927	5,406,557	3,377,290	79,596,546	60,576,231
Current income taxes (note 5)	4,791,277	24,156	45,027	4,860,460	7,823,788
Deferred Federal income taxes (note 5)	2,339,764	23,217,391	81,595	25,638,750	21,161,800
Total Current Liabilities	100,208,488	77,778,986	4,506,794	174,711,040	199,247,228
Deferred Credits (note 6)	4,410,130	—	343,390	4,753,520	1,675,500
Minority interests in consolidated subsidiaries	6,523,173	—	—	6,523,173	367,272
Long-term debt (note 7) excluding subordinated income notes shown below as capital funds:					
Senior long-term debt	118,444,499	76,573,031	26,676,166	221,693,696	164,365,339
Subordinated long-term debt	117,000	16,253,000	—	16,370,000	17,200,000
Total	118,561,499	92,826,031	26,676,166	238,063,696	181,565,339
Capital funds comprising subordinated income notes and stockholders' equity:					
Subordinated income notes (notes 1 and 7)	37,717,700	—	—	33,640,300	6,404,200
Stockholders' equity	155,787,861	57,900,999	2,614,930	155,787,861	151,725,335
Total	193,505,561	57,900,999	2,614,930	189,428,161	158,129,535
Contingent liabilities and commitments (note 13)	\$423,208,851	\$228,506,016	\$ 34,141,280	\$613,479,590	\$540,984,874

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

Consolidated Statement of Earnings

	Fifty-two Weeks ended January 27, 1968	Year ended January 31, 1967 (note 1)
Sales and Other Income:		
Sales	\$883,530,476	\$682,365,336
Less leased department sales	21,309,488	24,832,995
Net Sales	862,220,988	657,532,341
Advertising and broadcasting revenues	13,940,072	12,602,758
Other income—net	1,838,403	1,264,030
Total	<u>877,999,463</u>	<u>671,399,129</u>
Costs and expenses:		
Cost of sales, including certain occupancy and buying costs	656,020,943	484,005,956
Operating and administrative expenses (net of instalment account service charges)	164,630,841	132,272,145
Depreciation and amortization	9,510,722	7,733,895
Interest	20,462,128	17,222,000
Provision for employees profit sharing and pension plans (note 8).	3,510,484	3,503,862
Total costs and expenses	<u>854,135,118</u>	<u>644,737,858</u>
Earnings before income taxes and minority interests	23,864,345	26,661,271
Provision for income taxes (note 5).	12,191,024	13,815,111
Minority interest in earnings of subsidiaries	382,369	180,893
Net Earnings	<u>\$ 11,290,952</u>	<u>\$ 12,665,267</u>
Per share of common stock:		
Net earnings	\$2.62	\$3.07
Pro forma net earnings (note 12).	\$2.14	\$2.39

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

Fifty-two Weeks
ended January 27, 1968

Year ended
January 31, 1967

Voting, cumulative, convertible, preferred stock (note 9)

\$40 par value; \$1.75 per share dividend; authorized 600,000 shares, issued 597,092 shares—no change during year

\$ 23,883,680	\$ 23,883,680
---------------	---------------

\$5 par value; \$1.60 per share dividend; authorized 1,400,000 shares; issued (1968) 1,354,454 shares; (1967) 1,354,879 shares

Beginning of period—at par value	6,774,395	6,774,520
Par value of shares converted to common shares during period	(2,125)	(125)
End of period—at par value (aggregate preference upon involuntary liquidation, \$47,405,890)	6,772,270	6,774,395

Common Stock of \$5 par value; authorized 6,000,000 shares; issued (1968) 3,089,391 shares; (1967) 3,088,966 shares (note 10)

Beginning of period—at par value	15,444,830	15,444,445
Par value of shares issued upon:		
Exercise of employees' stock options	—	260
Conversion of preferred stock	2,125	125
End of period—at par value	15,446,955	15,444,830

Additional paid-in capital

Beginning of period	4,434,821	4,433,600
Excess of proceeds over par value of common shares issued upon exercise of employees' stock options	—	1,221
End of period	4,434,821	4,434,821

Retained earnings (note 11)

Beginning of period	101,187,609	95,772,650
Net earnings	11,290,952	12,665,267
Loss on disposition of treasury stock	—	(192,020)
Dividends declared:		
\$1.75 preferred stock	(1,044,925)	(1,044,926)
\$1.60 preferred stock	(2,167,648)	(2,167,808)
Common stock—\$1.30 per share (\$1.25 in 1967)	(4,015,853)	(3,845,554)
End of Period	105,250,135	101,187,609
Total stockholders' equity	\$155,787,861	\$151,725,335

See accompanying notes to consolidated financial statements.

Gamble-Skogmo, Inc. and Consolidated Subsidiaries

Consolidated Statement of Source and Application of Funds

	Fifty-two Weeks ended January 27, 1968	Year ended January 31, 1967 (note 1)
Source of Funds:		
Net Earnings	\$ 11,290,952	\$12,665,267
Depreciation and amortization of fixed assets	9,510,722	7,733,895
Increase in long-term debt	56,498,357	32,474,387
Increase in subordinated income notes	27,236,100	6,404,200
Increase in minority interest in consolidated subsidiaries	6,155,901	—
	<u>\$110,692,032</u>	<u>\$59,277,749</u>
Application of Funds:		
Cash dividends	\$ 7,228,426	\$ 7,058,288
Increase in working capital	66,218,539	32,747,041
Additions to fixed assets, net of disposals	33,480,761	13,916,108
Increase in investments	2,786,092	2,022,326
Other—net	978,214	3,533,986
	<u>\$110,692,032</u>	<u>\$59,277,749</u>

Assets and liabilities of Red Owl Stores, Inc. and subsidiaries at date of acquisition, July 1, 1967, included in the foregoing statement are approximately as follows: (000s omitted)

Working capital	\$20,000
Fixed assets	24,100
Long-term debt	16,000
Other assets—net	<u>2,500</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements / January 27, 1968

(1) Principles of Consolidation

The consolidated financial statements include the accounts of Gamble-Skogmo, Inc. and all subsidiaries except for four subsidiaries which, when considered in the aggregate, do not constitute a significant subsidiary.

Included in other securities and notes receivable are Gamble subordinated income notes (par value \$4,077,400) held by a finance subsidiary which are eliminated in consolidation.

For comparative purposes the financial statements for the preceding year have been restated to include the accounts of Gamble-Skogmo Acceptance Corporation and its subsidiaries and a wholly-owned finance subsidiary of Gamble Macleod Limited all of which were consolidated for

the first time in 1968. This change in practice has no effect on net earnings since the investments in all subsidiaries are carried at underlying equity value.

As of July 1, 1967, Gamble-Skogmo, Inc. purchased 80.4% of the outstanding common stock of Red Owl Stores, Inc. The excess of the net book value of Red Owl stock acquired over cost, \$618,458, has been credited to deferred credits in the accompanying balance sheet and is being taken into income over a 60 month period.

Provision has been made for loss on conversion of the accounts of Canadian subsidiaries to U. S. dollars and for income taxes on dividends which may be paid from undistributed earnings of Canadian subsidiaries.

(2) Receivables

	Operating Companies	Finance Companies	Real Estate Companies	Consolidated
Customer deferred payment accounts.....	\$ 92,679,114	\$227,569,333	\$ —	\$244,090,130
Other customer accounts.....	21,090,143	83,266	—	21,173,409
Miscellaneous*.....	16,524,853	327,962	713,777	9,783,364
Total accounts receivable.....	130,294,110	227,980,561	713,777	275,046,903
Less allowance for doubtful accounts and estimated collection expenses.....	8,186,876	9,527,345	—	17,714,221
	122,107,234	218,453,216	713,777	257,332,682
Less customer contracts sold, principally to finance subsidiaries less portion withheld pending collection.....	78,510,634	—	—	2,352,317
Net Receivables.....	\$ 43,596,600	\$218,453,216	\$713,777	\$254,980,365

Instalment accounts receivable balances due more than one year from January 27, 1968 included above have been estimated at approximately \$99,000,000.

*Includes amounts due from unconsolidated subsidiaries, \$1,621,371, and inter-company receivables which have been eliminated in consolidation.

(3) Property and equipment, (at cost)

	Operating Companies	Real Estate Companies	Consolidated
Land.....	\$ 4,804,613	\$ 5,419,227	\$ 10,223,840
Buildings and equipment.....	93,239,234	34,306,386	127,545,620
	98,043,847	39,725,613	137,769,460
Less allowance for depreciation.....	46,141,332	7,471,066	53,612,398
	51,902,515	32,254,547	84,157,062
Advertising display plant, less amortization.....	2,371,336	—	2,371,336
Leasehold improvements, less amortization.....	6,634,278	—	6,634,278
Net property and equipment.....	\$60,908,129	\$32,254,547	\$ 93,162,676

Substantially all the properties of the wholly-owned real estate subsidiaries are pledged as collateral under various long-term debt agreements.

(4) Intangible Assets

The Companies do not intend to amortize the remaining balance of intangible assets arising in connection with the acquisition of subsidiaries since there has been no evidence of impairment of value of the assets and business of such subsidiaries.

(5) Federal Income Taxes

Deferred income taxes classified as current in the accompanying balance sheet result from differences between tax and financial accounting with respect to gross profit on instalment sales. Gross profit deferred for income tax purposes in 1968 is in excess of net earnings before income taxes and minority interest in earnings with a resultant Federal operating loss carryover of approximately \$8,000,000 which expires in 1973. Other deferred income taxes are classified as deferred credits as described in Note 6 below.

Deferred income taxes charged to operations during the fifty-two weeks ended January 27, 1968 aggregated approximately \$5,000,000.

(6) Deferred Credits

Deferred credits at January 27, 1968 are comprised of (a) The excess of underlying equity over cost of 80.4% of Red Owl Stores, Inc., \$618,458, less amortization of \$77,977, (b) Deferred income taxes resulting from differences between tax and financial accounting for depreciation charges, \$2,500,539, (c) Deferred income taxes on dividends of Canadian subsidiaries which may be paid in future years from undistributed earnings.

(7) Long-Term Debt

Senior indebtedness aggregating \$221,693,696 includes \$80,000,000 under revolving credit agreements, 5%, 5½% and 6% sinking fund debentures of \$35,049,500 maturing to 1982, and the balance, \$106,644,196,

represents principally unsecured notes maturing to 1990 with interest rates ranging from 4½% to 6%.

Subordinated notes aggregating \$16,370,000 includes \$12,220,000 of Gamble Alden Finance Company bearing interest at 5¼% and 5½% payable in annual instalments through 1985 and the balance, \$4,150,000, represents principally indebtedness of finance subsidiaries maturing to 1983 with interest ranging from 5% to 5½%.

Subordinated income notes of Gamble-Skogmo, Inc., included as capital funds in the accompanying balance sheet, bear interest at 7% and mature in 1977.

The Company has borrowed the maximum amounts under \$60,000,000 and \$20,000,000 revolving credit agreements with banks at prime to ½% over prime interest rates. The portion of such notes outstanding at February 28, 1970 and 1971, respectively, may be converted into three and five year term loans. Commitment fees are payable during periods the Company fails to borrow the maximum amount permitted under the respective agreements. The terms of the \$60,000,000 revolving credit agreement require maintenance of net current assets (as defined) of \$60,000,000 and equal to or greater than 130% of consolidated current liabilities plus amounts outstanding under revolving credit agreements.

Annual payments of long-term debt during the next five fiscal years are as follows: 1969—\$6,581,557; 1970—\$27,899,278; 1971—\$19,424,891; 1972—\$29,821,505; and 1973—\$32,086,576. The foregoing schedule assumes that the \$80,000,000 presently outstanding under revolving credit agreements will remain outstanding until converted to term loans.

Notes to Consolidated Financial Statements *continued*

(8) Retirement, Pension and Profit Sharing Plans

Certain subsidiaries and divisions of Gamble-Skogmo, Inc. maintain retirement, pension and profit sharing plans for qualified officers and employees with annual contributions determined by earnings of the companies and divisions and/or compensation of the participants. Costs of the plans charged to income include, as to certain of the pension plans, amortization of prior service cost over a period of 30 years. The actuarially computed value of vested benefits for all plans at January 27, 1968 exceeded the total of the pension fund and balance sheet accruals by approximately \$650,000 and the aggregate present value of unfunded past services in connection with these plans was approximately \$5,300,000.

(9) Preferred Stock

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973; 9,037/10,000ths of a share to October 31, 1978 and 8,024/10,000ths of a share to October 31, 1983 on which date conversion rights expire. The stock is redeemable at the option of the Company at \$42.50 per share plus accrued and unpaid dividends during the year ending October 31, 1969 with successive annual reductions of 25¢ per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10ths of a share to November 30, 1979 and 8/10ths of a share to November 30, 1984 on which date conversion rights expire. The stock is redeemable at the option of the Company after November 30, 1969 at \$35.00 per share plus accrued and unpaid dividends, and in the event of involuntary liquidation at \$40.00 per share. In the opinion of legal counsel the excess of the amount to be paid upon involuntary liquidation over par value, \$47,405,890 at January 27, 1968, does not constitute a restriction of retained earnings. Sinking fund requirements, equal to 5% of shares issued, commence in 1984.

(10) Common Stock

At January 27, 1968, 2,522,499 shares of Gamble-Skogmo, Inc. common stock were reserved as follows:

- (a) 1,969,459 shares for issuance on conversion of preferred stocks.
- (b) 206,000 shares for issuance at a price of \$25.24 per share upon exercise of warrants issued in connection with the sale of notes originally due on May 1, 1975 but prepaid in 1965. Such warrants expire May 1, 1970.
- (c) 347,040 shares for issuance under the Company's restricted stock option plan for executives and key employees. At January 31, 1967, options on 192,977 shares were outstanding. During the ensuing year options for 11,288 shares lapsed, leaving options on 181,689 shares at an aggregate option price of \$5,072,219 at January 27, 1968.

The 25,425 shares of Red Owl Stores, Inc. common stock under option at January 27, 1968, under the terms of that Company's employees restricted stock option plan and employees qualified stock option plan have an aggregate option price of \$531,419.

(11) Retained Earnings

Retained earnings at January 27, 1968, includes undistributed earnings of subsidiaries, \$64,217,143, of which approximately \$19,000,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

(12) Pro Forma Earnings Per Share of Common Stock

Pro forma earnings per share computations are based upon the assumptions that: (1) All of the convertible preferred stock had been converted (with appropriate elimination of preferred dividend requirements), and (2) All of Gamble's options and warrants outstanding had been exercised and the proceeds applied to retire a portion of the outstanding 7% Subordinated Income Notes (with appropriate adjustments to net earnings for interest expense and related Federal income tax).

(13) Contingent Liabilities and Commitments

The Company is the defendant in a lawsuit alleging that the 1963 merger with General Outdoor Advertising Company, Inc. was illegal. It is expected that this matter will reach court trial during 1968. In the opinion of the Company and its counsel, the claim will be defeated.

During 1962, 1963 and 1964 General Outdoor Advertising Company, Inc. sold all of its operating branches and received notes for a substantial portion of the sales price. These notes together with notes received during fiscal year 1968, aggregating approximately \$3,000,000 in exchange for the net assets of fourteen stores of the Shoppers World Division of Aldens, Inc. and certain other notes were sold to banks under purchase-guaranty agreements under which Gamble-Skogmo, Inc. unconditionally guarantees payment of the notes. The uncollected balance of such notes was \$19,248,305 at January 27, 1968. All payments of principal and interest were on a current basis.

The Company is contingently liable with respect to lease obligations on fourteen stores of the Shoppers World Division of Aldens, Inc. sold during fiscal year 1968. Such leases currently require minimum annual rentals of approximately \$1,264,000 and expire in 1988. The approximate minimum annual rentals under other leases in effect at January 27, 1968, exclusive of leases with wholly-owned real estate subsidiaries, amounted to \$17,911,000, which is summarized according to lease expiration periods as follows: fiscal years 1969-1973, \$79,427,000; 1974-1978, \$55,802,000; 1979-1988, \$50,121,000, and subsequently \$2,748,000. These amounts exclude maintenance costs, real estate taxes, insurance, etc. and increased amounts based on percentages of sales which may be payable in some cases.

Accountants' Report

Peat, Marwick, Mitchell & Co.
Northwestern Bank Building
Minneapolis, Minnesota 55402

The Board of Directors and Stockholders
Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 27, 1968 and the related statements of earnings and stockholders' equity and the statement of source and application of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries at January 27, 1968 and the results of operations of Gamble-Skogmo, Inc. and consolidated subsidiaries for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated. Also, in our opinion, the accompanying statement of source and application of funds for the fifty-two weeks ended January 27, 1968 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

April 5, 1968

Principal Offices, Divisions and Subsidiaries

GAMBLE-SKOGMO, INC.
15 North Eighth Street
Minneapolis, Minnesota 55403*
B. C. Gamble, Chairman of the Board
C. C. Raugust, President

**New address June 1968:*

Gamble-Skogmo, Inc.
5100 Gamble Drive
Minneapolis, Minnesota 55416

Mailing Address:
Box 458
Minneapolis, Minnesota 55440

ALDENS, INC.
5000 West Roosevelt Road
Chicago, Illinois 60607
C. R. Wunderlich
Operates mail order catalog sales units

GAMBLES IMPORT CORPORATION
2777 North Ontario Street
Burbank, California 91504
H. D. Nelson
Performs corporate import buying services

CUSSINS & FEARN DIVISION
3636 Indianola Avenue
Columbus, Ohio 43214
R. G. Leohner
*Operates Cussins & Fearn stores,
Buckeye Mart stores*

JOHN ALDEN LIFE INSURANCE CO.
5000 West Roosevelt Road
Chicago, Illinois 60607
E. C. Williamson
*Offers life insurance and insures
customer credit accounts*

EISEN MERCANTILE, INC.
5400 Antioch Drive
Merriam, Kansas 66202
M. Eisen
*Operates "House of Fabrics" Shops,
services franchised fabric shops*

MACLEODS DIVISION
1530 Gamble Place
Winnipeg 19, Man., Canada
B. F. Rutherford
*Operates Macleod stores, services
Macleod franchised stores*

GAMBLE-ALDEN SECURITIES INC.
15 North Eighth Street
Minneapolis, Minnesota 55403*
J. P. Goan
*Performs financial services for
Gamble-Skogmo and its subsidiaries*

MARSHALL WELLS LIMITED
1395 Ellice Avenue
Winnipeg 21, Man., Canada
R. B. Sutherland
Operates Marshall Wells stores

GAMBLE DRUGS LIMITED
1530 Gamble Place
Winnipeg 19, Man., Canada
J. B. Cheyne
*Operates wholesale drug and
drug sundries warehouse*

MODE O'DAY DIVISION
2130 North Hollywood Way
Burbank, California 91505
I. M. Malouf
*Operates dress shops, services franchised
dress shops, factories*

GAMBLE MACLEOD LIMITED
1530 Gamble Place
Winnipeg 19, Man., Canada
A. G. Kirkness
*Subsidiary of Gamble-Skogmo, Inc.
directing all Canadian operations*

RASCO STORES DIVISION
2777 North Ontario Street
Burbank, California 91504
W. H. Lollar
*Operates variety stores, self-service department
stores, services franchised variety stores*

GAMBLE CORPORATE BUYING
225 West 34th Street
New York, New York 10001
A. Paley
*Corporate headquarters for
softline fashion goods*

RED OWL STORES, INC.
215 Excelsior Avenue East
Hopkins, Minnesota 55343
J. A. Watson
*Operates Red Owl food stores, Foodtown food
stores, services franchised food stores*

GAMBLE STORES DIVISION
15 North Eighth Street
Minneapolis, Minnesota 55403*
G. S. Younger
*Operates Gamble stores, services Gamble
franchised stores, Skogmo franchised stores*

SNYDER'S DRUG STORES, INC.
215 Excelsior Avenue East
Hopkins, Minnesota 55343
L. D. Berkus
Operates Snyder drug stores

GAMBLES CONTINENTAL STATE BANK
441 Wabasha
St. Paul, Minnesota 55102
W. A. Boss
Provides general banking services

STEDMANS DIVISION
136 Portland Street
Toronto 2B, Ont., Canada
S. P. Woolever
*Operates Stedmans variety stores, services
Stedmans franchised stores*

GAMBLE DEPARTMENT STORES, INC.
5000 West Roosevelt Road
Chicago, Illinois 60607
R. E. Riley
Operates conventional department stores

TEMPO STORES DIVISION
15 North Eighth Street
Minneapolis, Minnesota 55403*
E. C. Moore
Operates Tempo self-service department stores

Gamble-Skogmo, Inc.
15 North Eighth Street
Minneapolis, Minnesota 55403